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SUBJECT: AN IRANIAN ANALYST LOOKS AT US-IRAN RELATIONS

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Classified By: Deputy Principal Officer Sandra Oudkirk; Reason 1.5 (d).

¶1. (S/NOFORN) Summary and comment: A prominent Tehran-based political and economic analyst spoke with Consulate Istanbul's Iran Watcher June 6 about the prospects for US-Iran relations, Iran's nuclear program and the P5 1 offer, and Iran's compelling need for US energy investment and technology. The analyst, who is well-known to IRPO Dubai, has provided insightful Iran analysis in the past. He characterized oil and gas sector technology and cooperation as the key "missing link" in P5 1 offer to entice Iran to meet UNSC obligations to suspend its enrichment program. Whether realistic or not under current political conditions, his views may be an accurate reflection of at least the pragmatic decision-makers in Iran's leadership. End Summary.

¶2. (S/NF) On June 6 a prominent Tehran-based political and economic analyst and manager of a strategic consulting firm, who travels outside Iran frequently and who is well known to IRPO Dubai, shared his views on Iran-US relations and related issues with Consulate Istanbul's Iran Watcher.

The P5 1 Offer's "missing link": hydrocarbon cooperation

¶3. (S/NF) Asked his views of the P5 1's efforts to offer Iran incentives to abandon its nuclear fuel cycle pursuits, the Iranian analyst assessed that the current offer (as it appears in Annex II of UNSCR 1747) does not address the Iranian government's most critical economic or commercial needs. The analyst said he agreed with the December NIE finding that Iran likely had a nuclear weapons-related program in the past, but that, in his view, it had indeed abandoned active pursuit of that program. He believes Iran is trying to steadily advance its uranium enrichment capability to the point where it forces the P5 1 to acknowledge Iran has passed the technical threshold of mastering enrichment, giving it a "nuclear deterrent option" similar to Japan's, but he believes the regime does not intend to pursue enrichment on an industrial scale, or an active weapons programs, because such pursuits are simply too expensive and strategically unnecessary. He concurred with Iran Watcher's explanation that Iran's lacks sufficient indigenous uranium resources in any event to support or justify industrial-scale enrichment.

¶4. (S/NF) Instead. the analyst thinks that Iran's leadership is resisting pressure to abandon the enrichment program in order to hold out for the best possible package deal it can get. Asked what kind of offer would persuade the regime to give up enrichment, he suggested a deal in which the United States agrees to provide Iran's oil and gas industry with

advanced technology. What Iran's hydrocarbon sector needs most, he said, is injection technology to improve the recovery rate for Iranian oil and gas fields, and improved refinery technology, as well as significant commercial investment. (Comment: He recognized this would require ending the Iran Sanctions Act legislation, but he speculated that the next U.S. Congress might be willing to do so if it results in a mutually acceptable solution to the nuclear issue.)

15. (S/NF) The key political hurdle in Iran, he suggested, was satisfying the hard-liners, who might additionally insist that Iran keep some elements of enrichment-related technology. To address that demand, the analyst suggested that the P5 1 find a creative way to explore with Iran the idea of centrifuge technology that could limit enrichment capability to fuel grade. If such technology is available, the P5 1 could then agree to allow Iran to maintain and operate a pilot-scale cascade at Natanz, in exchange for allowing the IAEA "Additional Protocol" inspection access and authorities over its entire program. Such a framework, he suggested, would have the dual benefits of making Iran's most important economic sector directly dependent on the U.S., which would give the U.S. immediate and preeminent influence in helping reform Iran's economy. It would also bolster energy security for American allies like Turkey and give the regime genuinely important and face-saving incentives for which the Iranian public would agree is worth giving up industrial-scale enrichment.

A "pragmatic" regime

16. (S/NF) The analyst portrayed the Iranian regime as "ultimately pragmatic," operating in a rational way based on

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the leadership's calculations of the regime's key interests. He noted that the acknowledgment three months ago by Supreme Leader Khamenei that relations between Iran and the United States should not necessarily be frozen forever, but could be unfrozen when doing so becomes in Iran's interest, was a prime example of this.

17. (S/NF) Another example of the regime's pragmatism is its recent diplomatic "charm offensive" with many of its neighbors (reftel), including neighbors like Turkey, in spite of the GOT's support for UNSC efforts to sanction Iran and for USG policies in Iraq. "Ideology plays little part in Iranian foreign policy," he assessed. Instead, Iran's foreign policy leadership was increasingly concerned about regional security, especially the implications of instability in Iraq and Afghanistan for Iran's own security, and was taking pragmatic steps to address those concerns. In Afghanistan, Iran wants to bolster Karzai while retaining preponderant influence in the western provinces, while also seeking to impede the Taliban's control of the narcotics trade and smuggling into Iran. In Iraq, he assessed that the regime seeks a stable, Shia-led government close to Iran, but also an Iraq in which a "manageable" number of U.S. troops remains, large enough to continue training Iraqi security forces and to prevent Iraq's disintegration into Shia-Sunni civil war or a resurgence of Al-Qaida or Ba'athist insurrectionists, but not large enough to threaten Iran. He joked that if the U.S.'s most clear-thinking practitioners of "realpolitik" had lived through recent Iranian history and were now put in charge of Iran's foreign policy, Iran's foreign policy would not look dramatically different.

18. (S/NF) As further evidence of the regime's pragmatism, he noted that Iran's Ministry of Economic Affairs and Finance has hired his firm to advise them on how to attract more foreign investment, including from Turkey, as well as Europe, South Africa, and several fast-growing Asian economies. He revealed that key Ministry officials are quietly taking his advice on how to improve the investment climate for foreign

companies, for example by strengthening the legal protections provided by the foreign companies' contracts with Iranian counterparts, and steering foreign companies towards industries undergoing privatization. He acknowledged that vast aspects of the regime's economic policy had been badly mismanaged, but also indicated that there are many professional technocrats in the key ministries who are "publicly laying low" while quietly implementing policies aimed at enticing more cooperation between Iran and the international community.

More US-Iran Parliamentary and People-to-People exchanges

¶8. (S/NF) Until last year, the Iranian analyst enjoyed participating actively in NGO and think-tank-sponsored discussions in the U.S. about US-Iran relations. Following the summer 2007 detentions of prominent Iranian-Americans like the Woodrow Wilson Center's Haleh Esfandiareh, however, he has exercised far greater caution, avoiding participation in Woodrow Wilson events or events affiliated with the U.S. NGOs that had employed the other detained Iranian-Americans. He assessed that the regime reflexively still pays more attention to the NGOs it specifically accused last year, rather than other U.S. NGOs that were and are equally active in sponsoring Iran-related discussions. As a result, he felt relatively safe recently participating in a Carnegie Endowment conference, though he noted off-handedly that every time he re-enters Iran he prepares himself mentally for the possibility of detention.

¶9. (S/NF) A Majles role in building bilateral contacts: To help insulate himself from politicized charges of espionage related to his recurring travel abroad, he plans to reach out and build relations with members of the newly-elected 9th Majles, including providing relevant Majles members and committees with his consulting firm's regular political and economic analysis of developments in Iran. His longer-term goal, starting in 2009, is to encourage moderate, pragmatic Majles officials to consider exchanges with their U.S. Congressional counterparts, if political conditions will allow. He sees the possibility of substantive legislative contacts as an important stepping stone to more effective bilateral diplomatic exchanges in 2009 or 2010.

¶10. (S/NF) The analyst praised USG efforts to expand "people-to-people" exchanges with key civil society-related sectors of the Iranian population. He encouraged expansion of those activities, and agreed that useful new exchange programs could focus on assistance to war veterans and

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treating chemical weapons survivors, as well as more business-oriented programs, for example establishing a joint US-Iranian university MBA program. (Comment: The analyst is currently working with several partners to start Iran's first private MBA program, and lamented the lack of professional management experience in Iran's younger up-and-coming (20's and 30's) professionals, in contrast to that demographic cohort's impressive engineering, scientific, and medical experience and expertise. End comment.)

¶11. (S/NF) Visa diplomacy: When the timing is right and the USG wants to shake up the "predictable tenor" of U.S. and Iranian "bilateral sniping," he suggested that Washington consider proposing publicly to provide visa services to Iranians inside Iran. Such an offer could "send shockwaves" through the regime. The current visa system, which requires Iranians to travel to Dubai, Ankara, or Istanbul for an interview, and then requires their physical return several months later to pick up the visa, is prohibitively expensive for many Iranians and often engenders more resentment than goodwill. However, he advised against moving too quickly to demand the regime allow U.S. consular officials to be based in Tehran, as such a drastic step would force the regime to reject the proposal outright, leading only to "a massively

disappointed population that might sense it was just an empty gesture from Washington." Instead, he floated the idea of "virtual" visa interviews for Iranians inside Iran, conducted by video-link by US consular officers outside Iran ("they could even be in Washington"), with applicants' documents and fingerprints scanned and recorded, and passports mailed to outside collection points, well ahead of the interview. As long as the regime is not confronted by the bad public-relations optic of long lines of Iranians lining up in Iranian cities for American visas, the analyst believes Iranian leaders might feel compelled by domestic pressure to accept such a USG proposal.

Comment

¶12. (S/NF) The Tehran-based analyst, who is well-known to IRPO Dubai, has provided accurate and insightful Iran-related views in the past. He is well connected with both reformist and "pragmatic conservative" leaders in Iran. He is committed to seeing Iran reform its own economy, integrate more deeply with the global economy and work more constructively with the international community. That said, like most Iranians he is proud of his nationality and willing to defend aspects of Iranian government policy against outside pressure, including the P5 1-led efforts to apply UNSC sanctions on Iran. We believe his assessment that oil and gas sector technology and cooperation is the key "missing link" in P5 1 efforts to convince to meet UNSC obligations to suspend its enrichment program -- whether realistic or not under current political conditions -- may indeed be an accurate reflection of at least the pragmatic decision-makers in Iran's leadership. End comment.

WIENER